
**MUNICIPAL FINANCING
CORPORATION OF
SASKATCHEWAN**

2006 ANNUAL REPORT



LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 1, 2007

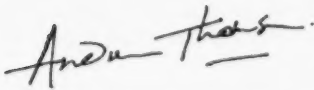
To His Honour
The Honourable Gordon Barnhart
Lieutenant Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2006, in accordance with **The Municipal Financing Corporation Act**. The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Sir,

Your obedient servant,

A handwritten signature in cursive script, appearing to read "Andrew Thomson".

Andrew Thomson
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Andrew Thomson
Chairperson

Honourable Harry Van Mulligen

OFFICERS

Mr. Rae Haverstock
General Manager

Ms. Margaret Johannsson
Assistant General Manager

Mr. Jim Fallows
Treasurer

Ms. Marsha Loraas
Secretary

CONTACT INFORMATION

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MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2006

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 2006, the Corporation participated in the financing of ten projects by purchasing \$10.4 million of debentures. Five of the debentures financed sewer and water projects, three pertained to paving and curb improvements while two involved facilities renewal and energy efficiency upgrades at school divisions.

The Corporation's debenture holdings at December 31, 2006 totaled \$31.9 million, up \$8.1 million from the total at December 31, 2005.

The Corporation recorded net earnings of \$897,000 in 2006, compared to earnings of \$927,000 for 2005. The reduction was caused by an increase in interest expense and the maturity of some old debentures that paid interest at relatively higher rates. The \$897,000 surplus was higher than the \$850,000 amount budgeted (see note 9 to the financial statements) due to lending activity being higher than expected.

For 2007, the Corporation expects net earnings to be similar to the amount recorded in 2006.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance. The Corporation incurred \$25,000 of administrative expenses in 2006. These expenses were for audit fees and the reimbursement of the costs to the Department of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2006, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

**COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31**

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Amount of debentures offered to the Corporation	\$ 10,763	\$ 4,040
Prior year's purchase commitments carried forward	<u>0</u>	<u>275</u>
Total purchase commitments for the year	10,763	4,315
Purchases completed	<u>10,373</u>	<u>4,315</u>
Purchase commitments outstanding at the year end	<u><u>\$ 390</u></u>	<u><u>\$ 0</u></u>

DEBENTURES PURCHASED IN 2006

(thousands of dollars)

Village of Pense	\$ 380
Town of St. Walburg	275
Prairie Valley S. D. No. 208	7,330
Village of Paddockwood	70
Town of Watrous	155
Town of Osler	835
Town of Lashburn	150
Village of Macoun	106
Town of Lafleche	320
Horizon S. D. No. 205	752
	<u><u>\$ 10,373</u></u>

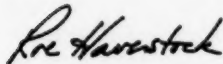
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

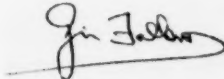
Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Dudley and Company LLP, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.



Rae Haverstock
General Manager



Jim Fallows, CA
Treasurer

March 1, 2007

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 2006 and the statements of earnings and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Dudley + Company LLP

Regina, Canada
February 14, 2007

Dudley and Company LLP
Chartered Accountants

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
ASSETS		
Current assets		
Due from General Revenue Fund (Note 3)	\$ 5	\$ 53
Interest receivable	916	644
Municipal debentures receivable within one year	<u>2,798</u>	<u>2,293</u>
	3,719	2,990
Investments in municipal debentures (Note 4)	29,048	21,473
Deferred financing charges	<u>86</u>	<u>97</u>
	<u><u>\$ 32,853</u></u>	<u><u>\$ 24,560</u></u>
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities		
Interest payable and accrued liabilities	\$ 291	\$ 149
Debt payable within one year (Note 6)	<u>3,308</u>	<u>3,273</u>
	3,599	3,422
Long term debt payable (Note 6)	17,059	9,840
Province of Saskatchewan's Equity		
Reinvested earnings	<u>12,195</u>	<u>11,298</u>
	<u><u>\$ 32,853</u></u>	<u><u>\$ 24,560</u></u>

See accompanying notes to the financial statements

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF EARNINGS AND REINVESTED EARNINGS

For the Year Ended December 31

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Revenue		
Investment income - municipal debentures	\$ 1,656	\$ 1,411
Investment income - short term		
investments and cash balances	<u>49</u>	<u>16</u>
	<u>1,705</u>	<u>1,427</u>
Expenses		
Interest on debt	783	475
Administration	<u>25</u>	<u>25</u>
	<u>808</u>	<u>500</u>
Net Earnings	897	927
Reinvested earnings, beginning of year	<u>11,298</u>	<u>10,371</u>
Reinvested earnings, end of year	<u><u>\$ 12,195</u></u>	<u><u>\$ 11,298</u></u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Operating Activities		
Interest received from municipal debentures	\$ 1,480	\$ 1,432
Interest received from short term investments	26	7
Interest paid on debt	(492)	(402)
Payments to suppliers	<u>(25)</u>	<u>(44)</u>
Cash provided by operating activities	<u>989</u>	<u>993</u>
Investing Activities		
Purchase of municipal debentures	(10,373)	(4,315)
Proceeds from maturing municipal debentures	<u>2,251</u>	<u>1,772</u>
Cash used in investing activities	<u>(8,122)</u>	<u>(2,543)</u>
Financing Activities		
Issuance of long term debt	7,330	5,000
Repayment of long term debt	(100)	(100)
Issuance of short term debt	(145)	(3,278)
Deferred financing charges	<u>0</u>	<u>(64)</u>
Cash provided by financing activities	<u>7,085</u>	<u>1,558</u>
Net (decrease) increase in cash equivalents during the year	(48)	8
Cash equivalents, beginning of year	<u>53</u>	<u>45</u>
Cash equivalents, end of year	<u><u>\$ 5</u></u>	<u><u>\$ 53</u></u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Investments in Municipal Debentures

Investments in municipal debentures are carried at amortized cost. The Corporation sometimes purchases debentures at a premium or discount where the interest rate yield required by the Corporation varies from the coupon interest rate offered by the local governments. Premiums and discounts in excess of \$250 on the investment's purchase date are amortized to income using the straight-line method over the life of the investment. In this way, effective income derived from each debenture is adjusted to equal the Corporation's required yield for that debenture to its maturity.

Deferred Financing Charges

Deferred financing charges relate to long term debt payable and are amortized on a straight-line basis over the term of the loan.

Market Value of Short term Financial Instruments

For certain of the Corporation's financial instruments, the carrying amounts approximate fair value due to the immediate or short term maturity of these financial instruments. These short term financial instruments include amounts due from the General Revenue Fund, interest receivable, municipal debentures receivable within one year, interest payable and accrued liabilities, and debt payable within one year.

2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

3. Due from General Revenue Fund

The Corporation's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Corporation's earned interest is calculated and paid quarterly by the General Revenue Fund to the Corporation using the General Revenue Fund's thirty day borrowing rate and the Corporation's average daily bank account balance.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

4. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by cities, towns, villages, rural municipalities and school divisions throughout the Province of Saskatchewan. All debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

The Corporation has an investment in 79 (2005 - 70) debentures issued by 57 (2005 - 49) issuers with a weighted average yield of 5.85% (2005 - 6.24%) and maturity dates ranging from 2007 through 2026.

The carrying amount invested by issuer category is as follows:

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Cities	\$ 9,112	\$ 9,673
Rural Municipalities	116	134
Towns	11,046	10,707
Villages	3,490	3,252
School Divisions	8,082	0
	<u>31,846</u>	<u>23,766</u>
Receivable within one year	<u>2,798</u>	<u>2,293</u>
	<u>\$ 29,048</u>	<u>\$ 21,473</u>

The fair value of these debentures is \$34.2 million (2005 - \$26.7 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity, less costs of settlement.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. The redemption price is set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. No debentures were redeemed during 2005 or 2006.

5. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions are as follows:

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Interest on debt	\$ 783	\$ 475
Administration	20	20

Other amounts due from and to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

6. Debt

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>2006</u>	<u>2005</u>
		(thousands of dollars)	
General Revenue Fund (GRF)			
June 17, 2013	4.75	\$ 5,000	\$ 5,000
December 3, 2015	4.25	5,000	5,000
August 8, 2026	4.86	<u>7,330</u>	<u>0</u>
		17,330	10,000
Less: sinking fund balance		<u>(271)</u>	<u>(160)</u>
Long term debt		\$ 17,059	\$ 9,840

The fair value of long term debt is \$17.7 million (2005 - \$10.3 million). This amount is determined by discounting the debentures' future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity, less costs of settlement.

a) sinking funds

Under conditions attached to the debentures, the Corporation is required to pay annually into sinking funds administered by the Saskatchewan Department of Finance a minimum of one per cent of the original principal.

b) principal repayments and sinking fund installments

Principal payments and sinking fund installments for the next five years are as follows (in thousands of dollars):

2007	-	\$	173
2008	-		173
2009	-		173
2010	-		173
2011	-		173

c) short term debt

The Corporation sometimes borrows funds on a short term basis from the GRF. At December 31, 2006, an amount of \$3,308 thousand (2005 - \$3,273 thousand) was due to the GRF at an interest rate of 4.22% (2005 - 3.44%).

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

7. Interest Rate Risk

The Corporation is exposed to interest rate risk due to the nature of its operations. Interest rate risk is created when the maturity dates of an entity's assets and liabilities are not precisely matched. The following table shows the matching of the Corporation's assets and liabilities:

Year of Maturity	Financial Assets	Financial Liabilities	Difference 2006	Difference 2005
(thousands of dollars)				
2006	\$ -	\$ -	\$ -	\$ (432)
2007	3,719	3,599	120	2,439
2008	2,812	0	2,812	2,434
2009	2,598	0	2,598	2,201
2010	2,547	0	2,547	2,129
2011	2,441	0	2,441	-
Thereafter	18,736	17,059	1,677	2,527
	<u>\$ 32,853</u>	<u>\$ 20,658</u>	<u>\$ 12,195</u>	<u>\$ 11,298</u>

The effective interest rates on the Corporation's assets and liabilities are as follows:

Investments in municipal debentures	5.85%
Short term debt	4.22%
Long term debt	4.72%

8. Commitments

Prior to December 31, 2006, the Corporation had approved the purchase of debentures from certain local governments of which \$390 thousand were not purchased before year-end.

9. Operations Budget

	Budget 2006
(thousands of dollars)	
Revenue	
Investment income - municipal debentures	\$ 1,435
Investment income - short term investments and cash balances	15
	<u>1,450</u>
Expenses	
Interest on debt	575
Administration	25
	<u>600</u>
Net earnings	<u>\$ 850</u>



